

**REPORT OF THE AUDIT OF THE
CUMBERLAND COUNTY
CLERK**

**For The Year Ended
December 31, 2008**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CUMBERLAND COUNTY CLERK

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts has completed the Cumberland County Clerk's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$16,318 from the prior year, resulting in excess fees of \$18,689 as of December 31, 2008. Revenues increased by \$72,726 from the prior year and expenditures increased by \$56,408.

Report Comments:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Should Have A Written Agreement To Protect Deposits
- The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits as of April 9, 2008, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$140,444

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Hicks, Cumberland County Judge/Executive
The Honorable Kim King, Cumberland County Clerk
Members of the Cumberland County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Cumberland County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 16, 2009 on our consideration of the Cumberland County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Tim Hicks, Cumberland County Judge/Executive
The Honorable Kim King, Cumberland County Clerk
Members of the Cumberland County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Should Have A Written Agreement To Protect Deposits.
- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Cumberland County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

September 16, 2009

CUMBERLAND COUNTY
KIM KING, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

State - Revenue Supplement	\$	60,610	
State Fees For Services			2,503
Fiscal Court			9,251
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	244,457	
Usage Tax		328,883	
Tangible Personal Property Tax		491,438	
Other-			
Fish and Game Licenses		6,397	
Marriage Licenses		2,343	
Deed Transfer Tax		21,397	
Delinquent Tax		71,732	1,166,647
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		12,434	
Real Estate Mortgages		9,897	
Chattel Mortgages and Financing Statements		23,045	
Powers of Attorney		690	
All Other Recordings		19,784	
Charges for Other Services-			
Candidate Filing Fees		280	
Copywork		2,820	68,950
Other:			
NSF Fees		70	
Miscellaneous		235	
Refunds		9,293	9,598
Interest Earned			3,867
Total Revenues			1,321,426

The accompanying notes are an integral part of this financial statement.

CUMBERLAND COUNTY
KIM KING, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2008
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 173,541

Usage Tax 319,016

Tangible Personal Property Tax 176,313

Licenses, Taxes, and Fees-

Fish and Game Licenses 6,117

Delinquent Tax 9,772

Legal Process Tax 8,911

Affordable Housing Trust 15,648 \$ 709,318

Payments to Fiscal Court:

Tangible Personal Property Tax 33,201

Delinquent Tax 5,519

Deed Transfer Tax 20,320 59,040

Payments to Other Districts:

Tangible Personal Property Tax 262,267

Delinquent Tax 37,878 300,145

Payments to Sheriff

772

Payments to County Attorney

10,496

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 69,768

Employee Benefits-

Employer's Share Social Security 2,090

Employer's Share Retirement 3,881

Employer Paid Health Insurance 5,480

Contracted Services-

Advertising 960

Indexing 3,000

Technology Upgrade 14,550

The accompanying notes are an integral part of this financial statement.

CUMBERLAND COUNTY
KIM KING, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2008
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Materials and Supplies-			
Office Supplies	\$	11,979	
Other Charges-			
Conventions and Travel		1,888	
Dues		480	
Postage		2,584	
Utilities		1,667	
Refunds		9,293	
Bank Charges		40	
Board of Assessment		300	
Tax Bill Preparation		1,646	
Miscellaneous		<u>778</u>	\$ 130,384
Capital Outlay-			
Office Furniture/Fixtures			13,814
Debt Service:			
Lease Purchase		<u>8,197</u>	
Total Expenditures			<u>\$ 1,232,166</u>
Net Revenues			89,260
Less: Statutory Maximum			<u>65,209</u>
Excess Fees			24,051
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>1,762</u>	<u>5,362</u>
Excess Fees Due Fiscal Court for 2008			18,689
Payment to Fiscal Court - March 10, 2009			<u>18,689</u>
Balance Due Fiscal Court			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CUMBERLAND COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2008
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Cumberland County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the County Clerk did not have a written agreement with the depository institution until April 30, 2008.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Cumberland County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On April 9, 2008, the County Clerk's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$140,444

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 4. Lease

On December 31, 2007 the Cumberland County Clerk entered into a lease agreement with Dolphin Capital Corporation for the purchase of a Lexmark copier. The lease agreement required twelve monthly payments of \$683, for a total of \$8,196. The lease was paid in full as of December 31, 2008.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Hicks, Cumberland County Judge/Executive
The Honorable Kim King, Cumberland County Clerk
Members of the Cumberland County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Cumberland County Clerk for the year ended December 31, 2008, and have issued our report thereon dated September 16, 2009. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cumberland County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The County Clerk's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Cumberland County Clerk's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Should Have A Written Agreement To Protect Deposits

The Cumberland County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Cumberland County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

September 16, 2009

COMMENTS AND RECOMMENDATIONS

CUMBERLAND COUNTY
KIM KING, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

STATE LAWS AND REGULATIONS:

The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Should Have A Written Agreement To Protect Deposits

On April 9, 2008, \$140,444 of the County Clerk's deposits in a depository institution was uninsured and unsecured. According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. In addition, it was noted that there was no valid written agreement on this date between the County Clerk and the depository institution, signed by both parties securing the County Clerk's interest in the collateral.

We recommend the County Clerk require the depository institution to pledge sufficient collateral to protect deposits and enter into a written agreement with the depository institution to secure the County Clerk's interest in the collateral pledged or provided by the depository institution. According to federal law U.S.C.A. 1823 (e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. Auditor notes a collateral security agreement was signed by the County Clerk and the financial institution on April 30, 2008.

County Clerk's Response: This has been corrected and was an oversight on my part.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

Segregation of duties over receipts and disbursements or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and/or misappropriation of assets.

A lack of segregation of duties exists over the receipt and disbursement functions of the County Clerk's office because a limited number of employees are available to properly segregate these job duties.

The County Clerk and all employees collect receipts. All deputies rotate preparing the daily checkout sheet and the daily deposit. The County Clerk posts all receipts to the ledger, prepares the monthly bank reconciliation. Auditor did note the County Clerk has implemented the following compensating control over receipts; she reviews and signs off on the daily checkout sheets prepared by deputies.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:
(Continued)

The County Clerk's Office Lacks Adequate Segregation Of Duties (Continued)

The County Clerk prepares and signs the majority of disbursements and posts all disbursements to the disbursement ledger. All deputies are authorized to sign checks. Dual signatures are only required in the Clerk's absence. The County Clerk also prepares all quarterly financial reports, legal process reports, deed transfer reports, and delinquent tax reports, with no reviews documented.

To adequately protect employees in the normal course of performing their duties, and/or prevent inaccurate financial reporting or misappropriation of assets, we recommend the County Clerk delegate the receipt and disbursement function to other employees. If, due to a limited number of staff, that is not feasible, strong oversight over those areas should occur and involve an employee not currently performing any of those functions. Additionally, the County Clerk could also provide the oversight. The individual providing this oversight should initial source documents as evidence of review.

County Clerk's Response: Due to the small number of employees we will not be able to accomplish this goal.

